April 19, 2020

Enclosed is your statement for the first quarter of 2020.

It was an extraordinary quarter. For the quarter, stock prices collapsed on increasing evidence of COVID – 19's deadly potential. The S&P 500 dropped 19.6%, the Dow dropped 22.7% and the NASDAQ dropped 14.2%. Academy Capital-selected stocks dropped 25.3%, but overall portfolio results fared well due to the significant amounts of cash held by them. On the bond side, one, five- and ten-year US Treasuries generated returns of 0.07%, 0.30% and 0.52% respectively.

The spring quarter's letter normally addresses the businesses of the stocks which were *newly* purchased over the prior year, but as they used to say on television, "we interrupt our program to bring you this important message." Due to the pandemic, we are focusing this letter on an overview of what we have done and what we think lies ahead. (Next quarter's letter will include a discussion of stocks purchased in 2019.)

As the quarter unfolded, we remained true to our vigilant, value-based culture. Early in March, we instructed our operations personnel to work from home, protecting them and our functionality. Next, we made sure our portfolios held adequate cash to meet distribution requirements to prevent unnecessary losses. Then we set up procedures for an orderly investment response to the market, anticipating a wide range of outcomes.

Meanwhile, we have spent significant time thinking about and discussing the COVID – 19 virus itself. We have learned a lot, but still have gaps in our knowledge. For starters, we are unclear who has had the virus and who still has it. "Asymptomatic" cases not only obscure the rate at which the virus spreads but also how statistically deadly it is. Even "confirmed" cases provide limited clarification because of discrepancies in testing. Most unnervingly, the reason for the wide dispersion in fatality rates remains unclear. But one thing is agreed on: nobody wants to contract this virus.

Initially these unknowns drove marketplace responses ranging from panic to unconcern. As time passed, this range narrowed to a healthy respect for the transmissibility and lethality of the virus, especially as it affects the "mature." Although relatively few people had initially contracted it, consensus built that social distancing was the best solution. But for an economy closely interconnected through debt, "locking down" is hazardous. The agonizing choice between decreased economic activity and increased viral transmission echoes a Woody Allen statement: "One path leads to despair and utter hopelessness. The other, to total extinction. Let us pray we have the wisdom to choose correctly."

Like those who personified the US with the moniker Uncle Sam, we too have compared the US and its economy to a living person. In the Tech Bubble of 1999, we viewed the US as someone manic and reckless. In the Twin Towers Terror of 2001, we watched the US behave as someone injured, angry and looking for a fight. In the Great Recession of 2009, we experienced the US as having suffered a heart attack and needing a long recovery period. In this Great Infection of 2020, we sense the conflict of someone who urgently needs bedrest, but is ruled by "I owe, I owe, so off to work I go."

A turning point emerged when the President declared an emergency in which no measures would be spared to thwart the virus and support the economy. The parties have worked together to provide fiscal stimulus (a euphemism for spending more than they take in). Normally such measures are inflationary but the deflationary effects of social distancing more than offset these pressures. Huge debts are being created but interest rates are near 0% - just as with that 0% credit card offer in the mail, we are collectively going to borrow the funds. It may create an inflationary mess, but that's for another day. After all, "to finish first, you must first finish."

Most critically, the Federal Reserve stepped in with its magical ability to conjure money out of thin air. *Create money they have* - by the trillions. It is difficult to convey the scale and power of these actions. The monetary equivalent of a D-Day war assault comes to mind. The same Federal Reserve that was unwilling to support triple-A rated mortgages in 2009 is now supporting corporate, state and municipal bonds. The Fed's ability to act quickly and without partisan gamesmanship is all-important.

The stock market is the central nervous system trying to make sense of this. Initially the stock market acted as if the virus was a non-event. Then, suddenly, as markets tend to do, it dropped with incredible speed, everyone following the same reasoning – if no one pays their rent, then all real estate fails, so all banks fail, etc. Some joked that stocks were the new toilet paper and vice versa. It was only the Fed's bold and powerful intervention that stabilized these markets.

Amid this, we have been almost daily stock purchasers, but primarily for accounts recently established or funded that have more than a 25% position in cash. For the past couple of years, these portfolios have had limited opportunities for investment. Their time has come. However, for portfolios of older vintage, we have had little activity.

Unlike many managers, we do not view this as a "table-pounding" buying opportunity. While the market has had a considerable drop, it is important to keep in mind that the drop is from historic highs. In fact, for older accounts the drop in stock prices has primarily reduced unrealized capital gains on their excellent long-term holdings. In the past, we have said that the four most dangerous words, causing investment paralysis as well as overaggressiveness, are "this time is different." Well, guess what? *This time is different*. Given the extreme lack of clarity about the virus, the economy and the markets, we don't believe aggressive purchasing is warranted. We remain concerned that the worst is not behind us.

Our holdings are in stocks of excellent companies. Some of these companies are huge; some not. Some are global; some not. Some pay dividends; some don't. Some are widely diversified; some not. Their common denominator is a set of competitive strengths that should allow them to endure this pandemic. If the worst is ahead of us, we will take advantage of it by *thoughtfully and patiently* increasing ownership at much better prices. If the worst is behind us, then we have many causes for cheer. In either case, we are optimistic that your portfolio and our economy will emerge stronger once these challenges have passed.

We hope this letter deepens your understanding of our process and your portfolio. We want you to stay informed and feel comfortable about our investing discipline. In communicating, we try to "do unto others as we would want done unto us." If you're new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Joyce Bell at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

If you would like a copy of Academy's updated Form ADV Part2A Disclosure Brochure, please contact Derek Richards at our office.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management